



Quick Guide to **50-30-20** Budgeting

Proven methods and strategies that work from the
debt relief experts at ClearOne Advantage

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**“Get your money
in balance.”**

- Elizabeth Warren

Most Americans spend more and save much less than they should. Use the 50/30/20 budgeting rule to right your financial ship and achieve your financial goals.

- The 50/30/20 rule makes you aware of your financial habits.
- Build your budget around your needs, wants, and savings.
- Be aware of the limitations of the 50/30/20 rule.
- Accomplish your financial goals by escaping debt while tracking your expenses and sticking to your budget.

Introduction

The 50/30/20 rule is a rough budgeting framework Senator Elizabeth Warren has made popular as “The Ultimate Lifetime Money Plan.”

The rule spells out that you should allocate 50% of your after-tax income to needs, 30% to wants, and the remaining 20% to savings.

This way, you can achieve a financial balance in life that allows you to cover all your necessities while doing the things you like, creating a nest egg, and paying off some debt.

Budgeting Rule



The power of the rule is in its simplicity. It offers everyone an easy-to-follow blueprint to a financially sound budget. However, it has some limitations.

The 50/30/20 rule is the simplest form of financial planning.

What does it mean to put the 50/30/20 rule into practice? What are some of its shortcomings and subtler implications? We'll answer here.

What is Your After-tax Income?

Your after-tax income is the money you take home at the end/beginning of each month. It comprises your gross income, minus all the taxes you pay on it, such as federal and state income taxes, and withholding taxes.

What is your [taxable income](#)? Subtract your deductions from your gross income to get your taxable income. You do not owe any taxes on your deductions, but you do have to pay taxes on your taxable income. You can add your deductions to your after-tax income.

If you earn \$30,000 and your deductions make up \$10,000, your taxable income is \$20,000. After subtracting \$3,000, which represents the 15% federal income tax, you are left with $\$20,000 - \$3,000 + \$10,000 = \$27,000$ of after-tax income.

You can also account for [state and municipal taxes](#), such as sales tax, property taxes, etc. If you pay a further \$1,200 in state income tax and \$400 in municipal income tax, you end up with $\$27,000 - \$1,200 - \$400 = \$25,400$.

This is the amount of money to which you can apply Warren's 50/30/20 rule.

50% - The Needs

Budgeting does not get any simpler than using half of your after-tax income (50%) to take care of all the inevitable expenses. Your needs include bills like:

- ✓ Rent
- ✓ Mortgage payments
- ✓ Health care expenses
- ✓ Insurance
- ✓ Utilities
- ✓ Minimum payments on your debt
- ✓ Groceries

Do not commit the mistake of including things like Netflix or eating out among your needs. Being honest with yourself is a basic premise of successful budgeting.

Right off the bat, the 50/30/20 rule gives you valuable feedback on your lifestyle and financial habits. You should not have to use more than 50% of your after-tax income on your needs.

If you find yourself having to turn more than 50% toward your needs, it may be time to rethink your lifestyle.

Reduce the costs of your needs when possible. Move into a smaller apartment to save on rent. Turn down the thermostat to save on utilities. Resolve your debt so that it does not suck the life out of your finances. Consider public transportation and drop your car if you can make do without it.

30% - The Wants

Being financially responsible does not mean living like a hermit. You probably have some hobbies. You might want to go on a vacation now and then. Going out with your friends and socializing is part of a healthy life as well. If you are a voracious consumer of digital content, you will want a subscription to a streaming service of some sort.

None of these wants are essential, but they make life truly worth living. Thus, you should not underestimate their importance. You should, however, be aware that you have more flexibility in this budgeting category than in the previous one.

You can save money on your wants in many ways.

- ✓ You can work out at home instead of going to an expensive gym. You should really consider this option if you only use the gym as a social venue and do not work out much while there.
- ✓ Do not eat out. Cook instead. You can pick up some skills this way that will turn you into a more versatile person.
- ✓ Watch the game on the TV instead of getting tickets and seeing it live.
- ✓ If you buy a car, opt for a more economic model, even if it will not impress your friends as much as a top-of-the-line gas guzzler.
- ✓ Are you already paying for streaming services? Drop cable. If you're paying for a service you do not use, cut that as well.
- ✓ Opt for a cheaper vacation. You don't have to fly halfway across the world to have fun. Consider more affordable destinations.

20% - The Savings

Priority-wise, [savings should come immediately after your needs](#). Many Americans commit the mistake of seeing savings as optional, something they may only need in the distant future. And who knows, you may not even be around by that time, right? Wrong. When you grow old, you'll need all the support your younger self has so thoughtfully set up over the years.

The company for which you work may offer you a retirement plan. If it does, find out how much it withholds for you every month and add that amount to your after-tax income. It is just as good as – if not better than – take-home money.

Furthermore, you don't have to be old to need some savings. [Set up an emergency fund](#) as soon as possible. This should be your top priority savings-wise. This way, you will always have a last-resort option to handle medical emergencies and other unexpected problems.



Your emergency fund is your anti-debt insurance.

If you deplete your emergency fund, build it back as soon as possible. You need the financial cushion of at least three months' worth of savings, and six months is even better.

One of the best financial tips is to turn some money toward debt repayment. [Once you have put aside 3-6 months' worth of savings](#), getting out of debt is a wise investment. Contact a ClearOne Certified Debt Specialist to learn about your debt relief options.

How to Use the 50/30/20 Rule for Budgeting

The role of Elizabeth Warren's rule is to put you in control of your financial habits. If you stick to this type of budgeting, you won't spend too much and save too little anymore.

- ✓ Find out exactly how much after-tax income you generate per month. Make sure to consider your retirement fund contributions.
- ✓ Multiply your after-tax income by 0.50 to find out how much you have for Needs, by 0.3 to get your Wants limit, and 0.2 for your Savings.
- ✓ Use these numbers to create a budget.
- ✓ Keep your eyes on your execution. Make sure you don't depart from the 50/30/20 guidelines.

Limitations of the 50/30/20 Rule

- ✓ If you are a low-income earner with a large family to support, you may not be able to limit your needs to 50%.
- ✓ Some spending categories, such as groceries, are difficult to define.
- ✓ The 50/30/20 rule does not take care of [budgeting](#) for you. You still have to put in the effort to define your spending categories, set your limits, and track your spending.
- ✓ If you have lofty financial goals, such as buying a dream home, pouring 20% of your income into savings will not suffice.

If you're looking for financial tips, the 50/30/20 rule should give you a solid starting point to start budgeting, get out of debt, and achieve financial balance.

When the 50/30/20 Rule Seems Out of Reach

What happens when your credit card debt is increasing and the stress of debt is weighing you down? When you are struggling to [pay even the minimum on your credit card debt](#) or even missing payments altogether, you are not making a dent in your debt load. If you are in this situation, you are likely at a point where the 50/30/20 Rule seems to be an aspirational budgeting tactic. It is okay to admit you need some professional credit card debt help.

ClearOne Advantage has been helping customers get out of debt and reach their financial goals for over 15 years. Contact a ClearOne Advantage Certified Debt Specialist today at **866-481-1597** to learn what your [credit card relief options](#) are and [get a free savings estimate](#).



Here are just a few reasons thousands of people trust us with their debt needs each year:

- 5,000+ high satisfaction ratings on Trustpilot
- Better Business Bureau accredited with an A+ rating
- Accredited member of the Consumer Debt relief Initiative (CDRI)
- Over 500 employees dedicated to your success
- A proven track record resolving over \$1 Billion in debt for our clients
- Our 100% limited satisfaction guarantee

[Get a free savings estimate online](#)

or to speak with a Certified Debt Specialist, call 866-481-1597.